

The Board and the senior management of the Company are of the opinion that during the year 2004, the Company has properly operated in accordance with the Code of Best Practice as set out in the listing rules of Hong Kong, the US Sarbanes-Oxley Act and the New York Stock Exchange "Corporate Governance Listing Standards" for listed companies to continuously improve the governance level of the Company.

The Board

A re-election for the Board was approved by the Annual General Meeting on June 7, 2004. The former second Board consisted of 8 Directors, of which 4 Executive Directors were Mr. Xiao Yaqing, Mr. Xiong Weiping, Mr. Luo Jianchuan and Mr. Chen Jihua, 2 Non-Executive Directors were Mr. Chen Xiaozhou and Mr. Joseph C. Muscari, and 2 Independent Non-Executive Directors were Mr. Chiu Chi Cheong, Clifton and Mr. Wang Dianzuo. Thereafter, in the Extraordinary General Meeting on September 28, 2004, Mr. Kang Yi was elected as an additional Independent Non-executive Director, whereby the members of the Board increased to 9 Directors. Mr. Xiao Yaqing is the Chairman of the Board. Apart from the resignation of Mr. Chen Xiaozhou from the Director the Company on 27 March 2005, the term of office for all Directors will expire on the close of the Annual General Meeting of the Company for 2006.

Each Director shall act in the interests of shareholders, and use his best endeavors to perform the duties and obligations for a Director as provided in all the applicable laws and regulations. Duties of the Board include: decision of the Company's business plan and investment scheme, preparation of the Company's profit distribution and loss recovery proposals, formulation of the Company's capital operation proposals, and implementation of resolutions approved by General Meetings etc.

The Company has appointed sufficient number of Independent Non-Executive Directors in accordance with the Listing Rules, including those with suitable professional qualifications such as expertise in accounting or financial management. The Company's 3 Independent Non-executive Directors are professionals in the fields of finance, resources and metallurgy, with extensive experience in these field. They have dedicatedly provided the Company with professional advice with respect to the steady operation and development of the Company. They also exercise supervision and coordination to safeguard interests of the Company and its shareholders.

In 2004, the Company held three Board meetings, with an average participation rate of 95.83%, in which, Mr. Xiao Yaqing, Mr. Xiong Weiping, Mr. Luo Jianchuan, Mr. Chen Jihua, Mr. Chen Xiaozhou, Mr. Joseph C. Muscari and Mr. Chiu Chi Cheong, Clifton all had a participation rate of 100% and Mr. Wang Dianzuo had a participation rate of 66.7%. Due to his late appointment in the Board, Mr. Kang Yi did not participate in any Board meeting in 2004. Details of the meetings are recorded by a designated officer, and all proposals approved in each meeting are filed into resolutions of the Board, which are archived in accordance with relevant laws and regulations. The principal activities of the Board in 2004 are as follows:

- Review of the Company's annual business plan and budget;
- Review of the Company's annual and interim results;
- Review of annual profit distribution and final dividend distribution proposals;
- Review of significant investments and merger/acquisition projects;
- Review of the Company's remuneration scheme for Directors, Supervisors and senior management;

- Election of a new Chairman after expiration of the former Board, appointment of the Company's President, Vice President and secretary to the Board as well as members of three special committees, etc.

Audit Committee

An Audit Committee has been established under the Board. The Audit Committee's duties mainly include the review of the Company's financial reports, consideration of the appointment of independent auditors and approval of audit and audit-related services, and supervision over the Company's internal financial reporting procedures and management policies. The Committee comprised two Independent Non-executive Directors, Mr. Chiu Chi Cheong, Clifton and Mr. Wang Dianzuo, and one Non-executive Director, Mr. Chen Xiaozhou, in which Mr. Chiu Chi Cheong, Clifton was the Chairman of the Committee. At least two meetings of the Audit Committee are convened annually to review the accounting policies, control system adopted and the relevant financial issues, so as to ensure completeness, fairness and accuracy of the Company's financial statements and other relevant information. In 2004, the Audit Committee held three meetings with an average participation rate of 66%, in which, the participation rates for Mr. Chiu Chi Cheong, Clifton, Mr. Wang Dianzuo and Mr. Chen Xiaozhou were 100%, 0% and 100% respectively. From March 28, 2005, the Audit Committee is revised to comprise 3 Independent Non-executive Directors. Mr. Chen Xiaozhou, who has resigned as of March 27, 2005, will be replaced by Independent Non-Executive Director, Mr. Kang Yi. In 2004, the Audit Committee reviewed the Company's annual and interim financial reports, considered the reports concerning the Company's internal control, and submitted its audit reports and related advice. Details of the meetings are recorded by a designated officer, and all proposals approved in each meeting are archived in accordance with relevant regulations.

Remuneration and Nomination Committee

A Remuneration and Nomination Committee has been established under the Board. Duties of the Remuneration and Nomination Committee include: review of the Company's remuneration policy and assessment on performance of the Directors and senior management. The Committee consists of two Executive Directors, namely Mr. Xiao Yaqing and Mr. Xiong Weiping and one Independent Non-executive Director Mr. Wang Dianzuo. Mr. Xiao Yaqing serves as the Chairman. The Committee convened three meetings, mainly focusing on the following tasks:

- preparation of remuneration policies for Directors and senior management;
- approval of terms in service contracts of Directors;
- assessment of achievement and performance of Executive Directors and senior management;
- nomination of candidates of Executive Director for the new Board;

Details of the meetings were recorded by a designated officer, and all proposals approved in each meeting were archived in accordance with the relevant laws and regulations.

Mr. Chiu Chi Cheng and Mr. Kang Yi re-elected as the members of the Remuneration and Nomination Committee at the board meeting on 28 March 2005.

Planning and Development Committee

A Planning and Development Committee has also been established under the Board. The Committee consists of Executive Directors, Mr. Xiong Weiping and Mr. Luo Jianchuan, and Independent Non-executive Director, Mr. Wang Dianzuo. Mr. Wang Dianzuo is the Chairman of the Committee. Duties of the Committee include review and evaluation of the Company's development, financial budget, investment, business operation and strategic plan of annual investment returns. The Committee properly performed its duties in accordance with the rules of procedures.

Supervisory Committee

The Supervisory Committee of the Company consists of 3 members, of which one supervisor is elected from the staff as a representative of the employees. The Supervisory Committee is responsible for supervision over the Board and its members and senior management, so as to prevent them from abusing their authorities and violating the legal interests of shareholders, the Company and its staffs. In 2004, the Supervisory Committee convened 3 meetings, at which the Company's financial position and legal compliance of corporate operations as well as work performance of the senior management were reviewed. The Committee has complied with the principle of creditability to proactively perform their functions.

General Meeting

General Meeting is the highest authority of the Company. It provides a good opportunity for direct communications and build a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches much importance to the meetings. In 2004, the Company convened two General Meetings respectively on June 7 and September 28 in the Meeting Room, 15/F, Block B, Tongtai Building, No. 33, Finance Street, Xicheng District, Beijing. The meetings mainly reviewed and approved the following:

- the Report of the Directors, Report of Supervisory Committee and Consolidated Financial Report for 2003;
- the profit distribution and final dividend distribution proposals for 2003;
- the remuneration proposal of 2004 for the Company's Directors and Supervisors;
- the re-election scheme of the Board and the Supervisory Committee;
- the by-election of Mr. Kang Yi as Independent Non-executive Director, etc.

On the whole, all resolutions were approved with a rate of 99.99%.

President Meeting

The Company convenes regular President meetings, which are hosted by the President and attended by senior management, including department heads from the Company's headquarters. The Company's operation, implementation of investment projects and financial issues are considered and determined at the meetings. The Company's management including managers of branches, subsidiaries and department heads from the headquarters will convene a work meeting semi-annually in order to review the operational performance of the previous six months and to make concrete decisions for operations for the following six months. The meetings have facilitated coordination, communication and implementation of the Company's various operations.

Corporate Management and Internal Control

In 2004, the Company achieved a smooth operation under its business mode of "integrated operations under centralized management". By implementing centralized management over five areas of finance, marketing, human resources, investment, research and development, the Company has effectively shared resources and exercised efficient control over expenses. Furthermore, the Company has also established management systems for occupational health, safe environment and ISO9000.

The Board and senior management attached much importance to the establishment and perfection of the internal control system. The Company has set up a special panel and a project management committee for all-round system establishment and comprehensive perfection in corporate internal control in accordance with Article 404 of the Sarbanes Oxley Act, which is required and expected to be completed before the end of 2006.

Information Disclosure and Disclosure Committee

Great importance has been attached by the Company to the information disclosure on an accurate, timely, fair, justified and open basis in compliance with disclosure requirements in the Listing Rules. All discloseable information (including annual and interim results) shall be subject to approval of the Company's Disclosure Committee with the President as its Chairman or a representative authorised by the Committee. For the purpose of discloseable financial statements and the relevant information, the Chief Financial Officer shall confirm that the Company's results and financial position have been reflected on a true and fair basis under relevant accounting principles and requirements.

Compliance and Exemption of Corporate Governance Standards Imposed by New York Stock Exchange

New York Stock Exchange ("NYSE") has based on its listing rules imposed a series of corporate governance listing standards for companies listed in the NYSE (Section 303A). However, NYSE provides that listed companies that are foreign private issuers, subject to certain limitations and conditions, are permitted to follow "home country" practice in lieu of the provision of Section 303A. One of the conditions is that a listing foreign private issuer must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies under NYSE listing standards.

The Company has compared the material corporate governance standards generally adopted by the companies incorporated in the People's Republic of China (the "PRC") and Section 303A, as follows:

A majority of independent directors

NYSE requires that the board of a listed company must comprise a majority of independent directors. There is no identical corporate governance requirement in the PRC. The Company, in view of its business operation and long-term business development, determined to maintain its board of directors with three independent directors and six non-independent directors.

Nominating committee and Compensation Committees

NYSE requires that a listed company must have a nominating committee and a compensation committee composed entirely of independent directors. The committees must have written charters that addresses the committees' purposes and responsibilities. The Compensation Committee is responsible to (i) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on this evaluation; and (ii) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval. The Nominating Committee must be to identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders. Both committees must have an annual performance evaluation.

The Company has established a Compensation and Nominating Committee, composed of three independent non-executive directors and two executive directors to be responsible for the foregoing corporate governance functions. The Company believes that the current Committee complies with the common

corporate governance requirement in the PRC and can function effectively.

Corporate Governance Committee

NYSE requires that a listed company must have a corporate governance committee composed entirely of independent directors. According to Section 303A, the corporate governance committee shall be co-established with the nominating committee and have a written charter. The corporate governance committee is responsible for developing and recommending to the board a set of corporate governance guidelines applicable to the corporation; and overseeing the evaluation of the board and management. The Committee must have an annual performance evaluation.

As most other companies incorporated in the PRC, the Company believes that corporate governance matters are critical and shall be carried out by the board. The Company accordingly does not maintain a corporate governance committee.

Investor Relations

The Company has established a designated department for investor relations, which is responsible for matters concerning investor relations and has formulated the "Investor Management Measures" to regulate the relationships with the investors. The Company's management maintains close communications with investors, analysts and the media by various means including roadshows, individual interviews, meetings and investors' visits to the Company, thereby further increasing investors' recognition of the Company.

As at December 31, 2004, the market capitalization of shares held by the public was RMB16,100,000,000. For details of class shareholders and the total shareholding, please refer to page 33.